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Internationalisation of European Textiles and Clothing Production

EASTERN EUROPE AND NORTH AFRICA

Special Report No. 2643

by Marcel Mersch

Published in association with
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Internationalisation of European Textiles and Clothing Production

EASTERN EUROPE AND NORTH AFRICA

Quotas will end in 2005. Will EU firms survive?

Import competition in the European Union is set to intensify as MFA quotas are phased out between now and 2005. EU manufacturers are therefore having to make crucial decisions about their future. Some are re-examining their product strategies. Others are considering whether to exit the business of textiles and clothing altogether.

Many are moving production offshore

A large number, however, are achieving success by transferring their manufacturing facilities to lower cost locations in nearby countries — where textiles and clothing can be made cost effectively without sacrificing the ability of manufacturers to offer quick response to their customers.

Outward processing in Eastern Europe is soaring

By 1998 East European countries will have unlimited access to the EU market — seven years before the abolition of quotas restricting textile and clothing imports from Asia.

Goods can be shipped from Warsaw to Cologne in only two days. And with wage costs less than one-tenth of those in Germany, outward processing volume in Eastern Europe has risen 19-fold in textiles and more than fourfold in clothing in only five years.

Eastern Europe, North Africa or Asia?

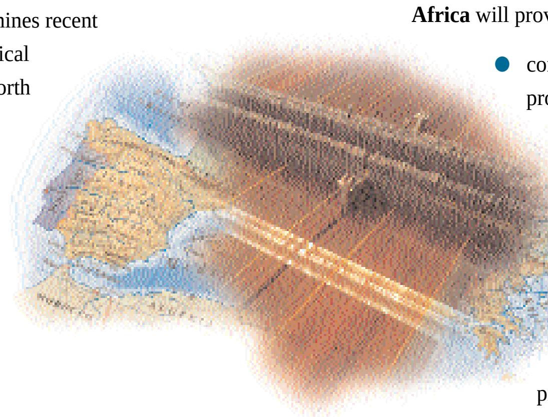
German firms have long been active in East European countries. French firms have used North Africa as a low cost production location. However, the opening up of Eastern Europe is providing fresh opportunities for all Western firms. Once transportation costs, transportation times and the benefits of quick response are taken into account, producers in Eastern Europe and North Africa can compete with the lowest cost countries in Asia.

Import threat or investment opportunity?

With the end of quota controls in sight, import competition is bound to intensify. The most forward looking companies in Western Europe are already planning for this eventuality by setting up production bases in nearby low cost countries. Can manufacturing firms continue to compete? Or will they lose out to more flexible and sophisticated sourcing by European retailers?

Internationalisation of European Textiles and Clothing Production: Eastern Europe and North Africa, published by Textiles Intelligence in association with the Brussels-based OETH (l'Observatoire Européen du Textile et de L'Habillement), addresses these and other issues.

- The report examines recent economic and political developments in North Africa and Eastern Europe and predicts how these are likely to impact upon the prospects for investment in these countries.



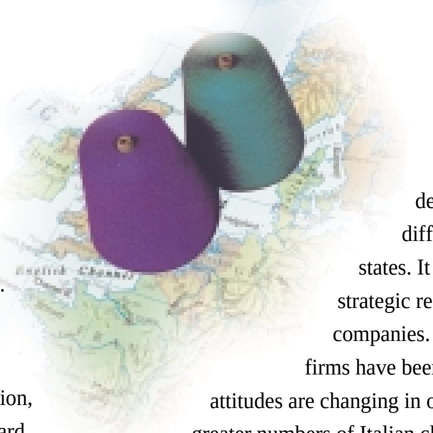
- The report traces the growth of offshore processing and identifies the main participants.
- The report examines the phasing out of tariffs between Eastern and Western Europe and its impact on future investment patterns.
- The report examines the impact of EU quotas on suppliers to the European market, and assesses the implications for future trade.
- The report assesses the relative competitiveness of textiles and clothing manufacturing in Eastern Europe, North Africa and Asia, and identifies those countries which could become important production locations in the future.
- The report highlights the threat posed by cheap imports in the markets for textiles and clothing in the European Union. However, it also helps to identify areas for investment in delocalised production, whether through foreign direct investment, international subcontracting or joint ventures.

Internationalisation of European Textiles and Clothing Production: Eastern Europe and North Africa will provide you with:

- comprehensive data on trade in outward processing by country
- an analysis of the merits of joint ventures versus other forms of delocalisation strategy
- a detailed but concise summary of European Union legislation on outward processing — written for the non-expert
- "mini-profiles" of EU companies and their manufacturing operations in selected East European countries

THE REPORT IS DIVIDED INTO 7 CHAPTERS AND 2 APPENDICES

- *Chapter* **1** provides an ***executive summary***.
- *Chapter* **2** examines ***different forms of international production***, identifying the factors which influence a manufacturer's choice of location, and summarising current EU legislation on outward processing trade (OPT). It also analyses recent trends in delocalisation, and OPT in particular.
- *Chapter* **3** shows how preferential tariff agreements and virtual quota-free access have made ***Morocco and Tunisia*** attractive locations for outward production by EU firms. This chapter examines the strengths and weaknesses of the region's textile and clothing industries, focusing on Morocco and Tunisia in particular and assessing the two countries' prospects in the light of growing competition from Eastern Europe.
- *Chapter* **4** focuses on the fast development of ***Eastern Europe*** as a location for the delocalisation of EU production. The region's attractiveness has been boosted by liberalisation and by new trade agreements with the EU.
- *Chapter* **5** focuses on ***subcontracting within the EU***. This activity continues to be important, with EU textile and clothing firms competing not on price but on quality, flexibility, and responsiveness to customer requirements.



- *Chapter* **6** compares official policies towards delocalisation in different EU member states. It also compares the strategic responses of different companies. German and French firms have been the leaders, but attitudes are changing in other countries. Ever greater numbers of Italian clothing firms, for example, are moving their production abroad as retail power grows and imports soar.
- *Chapter* **7** looks at the future of international production by EU firms. It examines the factors most likely to influence the delocalisation process, and predicts the impact of the latest EU legislation on future trends in outward processing.

Delocalisation of clothing production is likely to have far reaching effects on the EU textile industry. This sector will face mounting competition from new textile production plants sited close to centres where offshore clothing manufacturing is growing.

- *Appendix* **1** provides a useful glossary containing easy-to-understand definitions and descriptions of the terminology and abbreviations referred to in the report and in EU legislation.
- *Appendix* **2** contains a list of books and periodicals used in the preparation of this report.

THE AUTHOR

The report is written by Marcel Mersch, a researcher and adviser on economic and monetary affairs and industrial policy with the European Parliament. Previously, he was senior economist at OETH (L'Observatoire Européen du Textile et de L'Habillement) in Brussels, Belgium.

Internationalisation of European Textiles and Clothing Production: Eastern Europe and North Africa is published jointly with OETH — an independent, non-profit making organisation established in 1991. OETH conducts research through its own staff, as well as in collaboration with Eurostat and DGIII — the European Commission directorate responsible for industry — and its working groups.

VITAL INFORMATION

Internationalisation of European Textiles and Clothing Production: Eastern Europe and North Africa provides vital information about present and future trends for anyone with an involvement in the global fibres, textiles and clothing business — whether as importer/exporter, manufacturer, machinery maker, merchant, retailer, investment analyst or consultant.

Much of the information has been obtained from independent private research and surveys of company opinion and is not available elsewhere.

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